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Controller Completes Review of Milpitas and Morgan Hill Redevelopment Agency Assets

SACRAMENTO – State Controller John Chiang today announced completing reviews of the asset transfers by redevelopment agencies in Milpitas and Morgan Hill prior to their dissolution. In both cases, the reviews found that some redevelopment asset transfers were unallowable. This includes real properties, cash, and invested funds.

The Controller's review is mandated by AB1x26, the legislation that required all redevelopment agencies to cease operations by February 1, 2012. All assets and liabilities of the former redevelopment agencies were to be transferred to a "successor agency" and placed under the direction of an oversight board which is to dispose of the assets, pay off obligations, distribute excess cash to the county auditor-controller for distribution to other local agencies, including schools, and eventually go out of business.

The law requires that all redevelopment assets transferred to a city, county or other public agency after January 1, 2011, must be returned to its successor agency unless the assets were committed to a third party by June 28 of that year. The successor agency's oversight board, made up of local appointees, can return an asset or property to a local government if it serves a governmental purpose.

In Milpitas, its redevelopment agency transferred \$175.6 million in assets between January 1, 2011 and January 31, 2012. Of this amount, \$96.9 million of unallowable asset transfers were made to the City of Milpitas and \$50.2 million of unallowable asset transfers were made to the Milpitas Economic Development Corporation (MEDC). The audit found that the MEDC was established by the City Council in February 2011 and the governing board members were the members of the city council. The review report requires that all unallowable asset transfers be returned by the city and the MEDC to the successor agency.

The Milpitas review also found that an additional \$87.6 million of redevelopment assets have not yet been transferred to the successor agency, and requires that these assets also be transferred to the successor agency. In total, the audit determined that \$234.7 million in redevelopment assets are owed to the RDA's successor agency.

In Morgan Hill, a total of \$228.3 million in redevelopment agency assets were transferred between January 1, 2011 and January 31, 2012, of which \$108.4 million was determined to be unallowable. Of this amount, \$88.6 million and \$19.8 million must be returned by the City of Morgan Hill and the Morgan Hill Economic Development Corporation (MHEDC), respectively. The City of Morgan Hill created the MHEDC in March 2011 prior to the redevelopment agency transferring assets to it. The review found that the city council sat as the board of the MHEDC during the period transfers

were made. The MHEDC has added other members since then.

The review also noted that some of the unallowable asset transfers of real estate may qualify as "government purpose," in which case the oversight board of the successor agency is authorized to transfer them to the appropriate local government.

"My responsibility is to conduct these reviews as required by the Legislature and courts, while also helping local governments to make sense of this process," said Chiang. "As redevelopment agencies complete their wind-down, I hope that this provides an opportunity for local economic development to be re-imagined with a greater emphasis on measurable performance, efficiency and accountability."

As required by AB1x 26, the Controller will perform similar reviews of the other 400 former redevelopment agencies across the State. Reviews are currently underway in 12 other cities.

For more information, read the [Milpitas review](#) and the [Morgan Hill review](#).

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